

Message Text

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ACTION L-01

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TO SECSTATE WASHDC NIACT IMMEDIATE 1720

C O N F I D E N T I A L QUITO 6971

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LIMDIS

FOR DELIVERY 0900 SEPT. 28

FOR L - STEVE SCHWEBEL; ARA - JOSEPH GRUNWALD AND ANTHONY
ALLITTO, AND EB

E.O. 11652: GDS

TAGS: ENRG, PFOR, EC

SUBJECT: GULF-GOE DISPUTE

1. I WAS SUMMONED TO THE PRESIDENTIAL PALACE TODAY AT 6 P.M.
WHERE I WAS RECEIVED BY THE SUPREME COUNCIL. AS I ENTERED
THE INNER SANCTUM THE MINISTERS OF FINANCE, NATURAL RESOURCES,
AND FOREIGN RELATIONS (ACTING) WERE LEAVING. AN APPROPRIATE
TOUCH: THE ILLUMINATION WAS PROVIDED BY TWO FEEBLE CANDLES,
THE ELECTRIC POWER HAVING BEEN CUT OFF DUE TO THE CONTINUING
LACK OF DIESEL FUEL FOR THE QUITO POWER PLANTS.

2. THE NEWS IS NOT GOOD. I WAS PRESENTED WITH THE AIDES
MEMOIRE A ROUGH TRANSLATION OF WHICH IS BELOW. THE HOOKER
IS THAT THE GOE IS DEMANDING A GUARANTEE OF IRREVOCABLE
LETTERS OF CREDIT (120 DAYS) FOR ALL FUTURE PAYMENTS (PARA-
GRAPHS 2 C, D, AND E OF QUITO 6924). THE PRESENTATION
OF THE MEMORANDA WAS ACCOMPANIED BY AN ORAL STATEMENT BY
POVEDA THAT THE GOE WAS OUTLINING TO ME THE PROCEDURES
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IT INTENDED TO FOLLOW IN ORDER TO SETTLE THE GULF PROBLEM,

INCLUDING THE FORM OF A BUY-OUT, TAKING INTO CONSIDERATION ITS RELATIONS WITH THE USG, ETC., ETC.

3. GIVEN THE FORMALITY OF THE CIRCUMSTANCES (NOT TO MENTION THE LACK OF LIGHT), I DID NOT COMMENT, EXCEPT TO SAY THAT I APPRECIATED THE EFFORTS THE GOE WAS MAKING IN ORDER TO RESOLVE THE GULF PROBLEM IN A MUTUALLY ACCEPTABLE MANNER. I SAID I WOULD TRANSMIT THE DOCUMENTS TO THE DEPARTMENT AND WOULD INFORM THE COUNCIL OF MY GOVERNMENT'S REACTION AS SOON AS POSSIBLE.

4. I HAVE SINCE MADE A PRIVATE APPOINTMENT WITH POVEDA FOR EARLY TOMORROW MORNING, AT WHICH TIME I WILL PRESENT TO HIM THE DRAFT NOTE YOU HAVE WORKED OUT WITH GULF. I WILL TELL HIM THAT THE REQUIREMENT OF THE IRREVOCABLE LETTERS OF CREDIT IS UNACCEPTABLE TO GULF, AND I WILL ARGUE THAT THIS DEMAND SHOULD BE DROPPED.

5. I AM NOT OPTIMISTIC THAT THE GOE WILL ACCEDE. THE FACT THAT THEIR MEMORANDUM WAS OBVIOUSLY WORKED OUT WITH THE FULL PARTICIPATION OF THE COUNCIL PLUS THE THREE MINISTERS MEANS THAT THEY NOW HAVE LITTLE INTERNAL FLEXIBILITY. IF I CANNOT GET THEM TO DROP THE IDEA OF IRREVOCABLE LETTERS OF CREDIT ENTIRELY, I WILL TRY OUT THE IDEA OF A LETTER FROM GULF TO THE USG WHICH PROMISES TO PAY THE DEPOSITS AS THEY COME DUE PARI PASSU WITH FULFILLMENT BY THE GOE OF THE TERMS OF ITS MEMORANDUM TO THE USG. MY NEXT FALL-BACK WILL BE TO TRY TO CONVINCE THEM TO SETTLE FOR LETTERS OF CREDIT FOR THE \$27 MILLION IN "ADVANCE DEPOSITS" (PARA. 2 C OF QUITO 6924) AND ALLOW GULF TO GO BACK TO THE UNCONFIRMED, 120-DAY SCHEME FOR THE \$21 MILLION COMING DUE PLUS FUTURE LIFTINGS. FAILING THAT, I WILL TRY TO CONVINCE POVEDA THAT THE GOE SHOULD SETTLE FOR CONFIRMED LETTERS OF CREDIT FOR FUTURE LIFTINGS AND ALLOW GULF TO PAY THE \$48 MILLION IN DEPOSITS AS THEY COME DUE. THIS WOULD ALLOW GULF TO GRADUALLY ELIMINATE ITS TOTAL INDEBTEDNESS WITHIN 120 DAYS.

6. ALL THE FALL-BACKS IN PARAGRAPH 5 WILL BE AD REFERENDUM, OF COURSE.

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7. THE GOE'S MEMORANDA FOLLOW:

FUTURE CONDITIONS FOR NEGOTIATIONS WITH GULF AFTER GULF HAS FULFILLED ITS OBLIGATIONS TO THE GOVERNMENT OF ECUADOR

1. CEPE WILL PAY THE DEBTS FOR:

A) INTERNAL CONSUMPTION

B) PIPELINE TRANSPORT; AND

C) THE BALANCE OF THE 25 PERCENT PURCHASE.

2. IN RELATION TO THE OVERRETENTION OF THE CENTRAL BANK:
ONCE THE WORK OF THE COMMISSION WHICH IS STUDYING THE
PROBLEM IS COMPLETED, IT WILL BE POSSIBLE TO COMPARE
FIGURES. IF THE RESULT IS AS THEY SAY (GULF), THE
GOVERNMENT WILL PAY. IF IT IS LESS THAN THE FIGURE NAMED
BY THEM (GULF) THE GOVERNMENT WILL PAY THE AMOUNT
NAMED, AND THE BALANCE
WILL BE PUT TO AN AUDIT.

3. THE GOVERNMENT WILL BUY THE RIGHTS AND SHARES WHICH
GULF HAS WITH THE STATE IN ITS CONTRACT FOR EXPLORATION
AND EXPLOITATION, AT AN AUDITED BOOK VALUE AND IN A TIME
PERIOD AND BY A METHOD TO BE NEGOTIATED. THIS PERIOD
OF NEGOTIATION WILL BE AS SHORT AS POSSIBLE AND WILL
NOT BE GREATER THAN 120 DAYS.

4. WITH RESPECT TO THE PIPELINE, THE GOVERNMENT WILL
BUY THE NON-AMORTIZED PART WHICH CORRESPONDS TO GULF
SUBJECT TO A PRIOR SPECIAL AUDIT.

MINIMUM ACCEPTABLE CONDITIONS FOR THE COMPANY TO PAY WHAT
IT OWES

IN ORDER THAT GULF MAY FULFILL ITS OBLIGATION UNDER THE LAW
AND PAY WHAT IT OWES, THE FOLLOWING MODUS OPERANDI HAS BEEN
CONCEDED TO IT:

A) TO CANCEL THE DEBT WHICH AS OF SEPT. 30 WILL BE US
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\$52,923,000, THE FOLLOWING FORM OF PAYMENT WILL BE
GRANTED TO GULF:

I) THE US \$27,111,000 WHICH GULF HAS PAID FOR SHIPMENTS
REALIZED SUBSEQUENT TO AUGUST 25 WILL BE ACCREDITED
TO IT. THE GOVERNMENT WILL COLLECT THIS AMOUNT
IN ACCORDANCE WITH THE 120 DAYS CREDIT TO WHICH
GULF HAS THE RIGHT ACCORDING TO THE REGULATIONS OF
THE MONETARY BOARD. THIS AMOUNT WILL BE DULY
GUARANTEED AS PAYMENT IN ACCORDANCE WITH A METHOD
TO BE ESTABLISHED BY THE CENTRAL BANK OF
ECUADOR; AND,

II) THE BALANCE OF US \$25,812,000 MUST BE PAID IN CASH.

B) PAYMENTS FALLING DUE FOR SHIPMENTS MADE, AND NOT INCLUDED IN THE ABOVE, WILL BE DULY GUARANTEED IN ACCORDANCE WITH THE PROCEDURES ESTABLISHED BY THE CENTRAL BANK OF ECUADOR; AND,

C) GULF MAY CONTINUE EXPORTATIONS UNTIL THE NEGOTIATIONS OF THE PURCHASE OF THE RIGHTS AND ACTIONS INDICATED IN POINT 3 (CONTRACT FOR EXPLORATION AND EXPLOITATION) ARE COMPLETED, WITH THE SAME 120 DAYS CREDIT IN ACCORDANCE WITH THE EXISTING REGULATIONS OF THE MONETARY BOARD; AND UNDER THE APPROPRIATE GUARANTEES INDICATED BY THE CENTRAL BANK.

NOTE: 1) GULF OIL COMPANY MUST ALSO PAY THE APPLICABLE INTEREST IN ACCORDANCE WITH THE REGULATIONS OF THE MONETARY BOARD.

2) THE GUARANTEE REFERED TO IN THE PRESENT DOCUMENT MUST BE AN INDIVIDUAL, IRREVOCABLE, AND CONFIRMED LETTER OF CREDIT.

8. COMMENT: I WOULD LIKE TO POINT OUT THAT THE GOE IS IN ESSENCE ASKING GULF TO COMMIT ITSELF TO PAY
- AFTER 120 DAYS - FOR OIL THAT IS HAS LIFTED AND SOLD.
IN RETURN GULF STANDS TO GET A GOVERNMENT-TO-GOVERNMENT COMMITMENT AS TO THE PROCEDURES AND CONDITIONS OF A BUY-OUT.
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SHOULD THE GOE RENEGE ON THOSE COMMITMENTS, THE USG - AND GULF - WILL HAVE A STRONG CASE, ONE WHICH IF PUBLICIZED COULD WELL BRING DOWN THIS REGIME. I BELIEVE THIS WOULD PROVIDE GULF MORE LEVERAGE THAN THE APPROXIMATELY \$50 MILLION IN "FLOAT" THAT THEY NORMALLY MAINTAIN UNDER THEIR OLD EXPORT SYSTEM.
BLOOMFIELD

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